

**Before the
Federal Communications Commission
Washington, D.C. 20554**

In the Matter of)	
)	
Federal-State Joint Board on)	CC Docket No. 96-45
Universal Service)	
)	
High-Cost Universal Service Support)	WC Docket No. 05-337

REPLY COMMENTS OF GENERAL COMMUNICATION, INC.

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SUMMARY

The Commission should redefine the objectives of universal service programs to better reflect both market conditions and consumer economics. Today, former monopoly markets are competitive and most consumers can afford telephone service. Therefore, before any additional support mechanisms are designed, the Commission should put competition to work as part of universal service reform and adopt simple definitions of affordability and reasonable comparability. Using these definitions, the Commission should determine whether additional targeted support is necessary, and ensure that existing support is no larger than necessary to meet universal service goals.

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I. INTRODUCTION

The record in this proceeding demonstrates the importance of a prompt and principled response to the Tenth Circuit's *Qwest II* decision. This response should recognize the power of competition to advance the goal of universal service by utilizing the market to provide the highest quality, lowest priced services to the largest number of consumers, while lowering demand on the fund. Similarly, in crafting a new high-cost mechanism, the Commission should recognize that basic telephone service is now affordable for most consumers, should adopt narrowly tailored solutions to address remaining gaps in subscribership, and should make sure it is providing the minimum support necessary to achieve affordability. GCI has proposed a simple and effective measure of reasonable comparability, and the Commission should quickly adopt

GCI's proposal. Finally, the Commission should not entertain certain carriers' efforts to capture additional (and unnecessary) embedded cost support, particularly for interexchange services. Expanding support under the very system that demands reform would defy reason, and simply make the task at hand harder by expanding the pool of USF entitlement.

II. THE COMMISSION SHOULD HARNESS COMPETITION TO ACHIEVE THE GOALS OF UNIVERSAL SERVICE.

Commenters in this proceeding confirm the urgent need for a clear guiding vision of universal service goals, and the importance of goals that reflect the reality of today's telecommunications markets. As the Commission embarks on this essential task, it should ensure that universal service policy captures the benefits of competition. Competitive forces "continually compel industry suppliers to reduce costs and improve quality."¹ Harnessing these forces serves the goals of universal service, by "minimizing the amount of long-term support and ongoing governmental regulatory intervention that is needed to ensure that universal service goals are achieved."²

The Commission can harness competition for the benefit of all consumers by providing symmetric universal service support to all providers, and by basing

¹ David E. M. Sappington, "Harnessing Competitive Forces to Foster Economical Universal Service" at 2 (attached as Exhibit 3 to Comments of General Communication, Inc. (filed Mar. 27, 2006) ("GCI Comments")) ("Sappington").

² *Id.*

support on the most efficient carrier's cost.³ Symmetric support policies, which make the same support per line available to all providers of supported services, mimic the economic incentives in an unsubsidized market while achieving universal service goals of affordable and reasonably comparable rates: symmetric support ensures that the least-cost provider can make affordable and reasonably comparable service available to the market, creates incentives for all providers to minimize cost in order to gain competitive advantage, and avoids rewarding carriers for maintaining high cost, legacy networks.⁴

Capping support at no more than the support necessary for the least-cost supplier likewise ensures that support is no greater than necessary to provide delivery of the supported service. This ensures that the universal service fee itself does not become a barrier to affordability for some customers, particularly those with lower incomes. Adopting these approaches encourages efficiency

³ The Commission should also consider abandoning the rural/non-rural distinction. Eligibility for high-cost support (support that is meant to benefit consumers, not carriers) should not depend on organizational structure. The current rules provide the wrong incentives, discouraging economies of scale and otherwise distorting competition. Consumers pay the price for these policies, and the Commission should accordingly take this opportunity to rationalize universal service by abolishing the distinction between support for rural and non-rural carriers. *See also* Comments of Dobson Cellular Systems, Inc. at 3 (filed Mar. 27, 2006) ("Dobson Comments"); Comments of the Nebraska Public Service Commission at 2 (filed Mar. 27, 2006); Comments of Qwest Communications Int'l, Inc. at 9 (filed Mar. 27, 2006); Comments of the Washington Utilities & Transportation Comm'n at 2 (filed Mar. 27, 2006).

⁴ *See* Sappington at 25-32.

and the delivery of supported services at minimum cost, benefiting consumers receiving supported services and consumers contributing to that support.⁵

III. THE COMMISSION HAS ACHIEVED AFFORDABILITY AND SHOULD NOW DEFINE ITS OBJECTIVES AND ENSURE SUPPORT IS NOT EXCESSIVE.

The Commission should acknowledge that universal service for basic telephony has been largely achieved. As Verizon notes, Americans now spend less than 2% of their income on telephony.⁶ By contrast, approximately 5% of consumer spending is on entertainment.⁷ The relatively small percentage of income spent on telephony demonstrates that the Commission has achieved the broad affordability of telephone service. Likewise, the Commission's most recent subscribership report found that telephone subscribership is now at 92.9%, and it has been at or above 91% since 1983.⁸ It is even higher in all groups above approximately 200% of the federal poverty guidelines for a family of four.⁹ This very high and steady level of subscribership confirms that, for the general population, basic telephone service is available at affordable rates throughout the United States. It is therefore time for the Commission to declare

⁵ Although competition can discipline the size of the fund, the Commission may wish to consider additional measures, such as reducing funding by a fixed percentage every year, in order to control growth of the fund. States could provide an important safety valve in this process, halting scheduled reductions where no carrier can provide service throughout an entire study area with the reduced support.

⁶ Comments of Verizon at 15 (filed Mar. 27 2006) (citing FCC, Statistics of Communications Common Carriers, Table 5.10 (2004/2005 ed.)).

⁷ Consumer Expenditures in 2004, U.S. Dep't of Labor, U.S. Bureau of Labor Statistics (Apr. 2006).

⁸ Telephone Subscribership in the United States (Data through November 2005).

⁹ *Id.*

that basic telephone service is affordable for the general population (but not for low income consumers), and define the objectives for universal service going forward. The Commission cannot effectively implement the Act and fulfill the 10th Circuit's mandate¹⁰ without undertaking this critical task and articulating definite and measurable goals for universal service.

Two conclusions follow from the current general affordability of basic telephone service, and should inform the Commission's goals. First, having achieved general affordability, the Commission should now focus on minimizing the cost of delivering supported services and reducing the overall cost of the universal service program. This requires an assessment of whether the current funding mechanism provides more support than necessary to keep service affordable. In order to do so, the Commission must define the upper limit of affordability so that it can determine whether it is oversubsidizing service by providing support that is not merely sufficient, but excessive. In addition, the Commission should implement measures to capture any available cost of service efficiencies in order to reduce telephone costs for all consumers, consistent with the goals of universal service. Second, to further advance universal service the Commission should study those areas and groups with the lowest subscribership and consider targeted solutions to address their needs.

¹⁰ *Qwest Communications Int'l Inc. v. FCC*, 398 F. 3d 1222 (10th Cir. 2000).

IV. THE COMMISSION SHOULD PROMPTLY ADOPT SIMPLE AFFORDABILITY AND COMPARABILITY BENCHMARKS.

Commenters have suggested a variety of support mechanisms. As the Commission weighs these suggestions, it should consider the affordability of telephone service relative to other basic services and the need for a simple and workable support mechanisms.

First, because subscribership levels support the conclusion that basic telephone service is already affordable for most customers, the Commission should limit rather than increase high cost support – support that is designed to address affordability. To the extent that telephone service remains unaffordable for some consumers, the Commission should address those consumers’ needs directly. The Commission should first determine whether there are some low income consumers or geographic areas that cannot afford telephone service. There are, for example, few states where telephone penetration is below 90% today.¹¹ The Commission should respond to demonstrated needs like these by expanding narrowly targeted programs like Lifeline and Link-Up.¹² A carefully focused expansion of these existing programs, rather than broad increases in support, is more likely to address gaps in subscribership. Further, broad increases could unnecessarily drive up the costs of telephone service for consumers that contribute universal service, undermining rather than advancing

¹¹ *Id.* at Table 2.

¹² See Comments of the National Association of State Utility Consumer Advocates at 33 (filed Mar. 27, 2006) (“NASUCA Comments”).

universal service goals.¹³ Indeed, if support can be reduced overall, it is likely that universal service will benefit because the universal service surcharges for non-Lifeline low income customers would fall.

The Commission must also avoid any mechanism that is unduly complex. It has been more than a decade since passage of the 1996 Act, and the Commission has not yet successfully implemented an high-cost support mechanism. In order to move forward expeditiously (and to avoid wasting scarce agency resources) the Commission should adopt the simplest mechanism that will serve the statutory goals.¹⁴

The Commission should accordingly adopt GCI's proposal, which addresses concerns about comparability of rates, and provide support only where rural rates exceed the highest urban rate.¹⁵ GCI's approach achieves the goals of universal service, is simple to administer, and is fair to all consumers. In order to ensure that this benchmark functions as intended, and is not distorted by varying state ratemaking policies, the Commission should comprehensively examine rural and urban rates.¹⁶

Using median income to measure affordability and distribute universal support is the wrong approach. As NASUCA notes, relying on median

¹³ See Comments of the Massachusetts Dep't of Telecommunications & Energy at 10 (filed Mar. 27, 2006).

¹⁴ Any further delay will continue to harm consumers in states (like Wyoming) that have completed the rate rebalancing contemplated by the 1996 Act.

¹⁵ GCI Comments at 31-34.

¹⁶ *Id.* at 25-31.

household income is too blunt a measure to effectively deliver support.¹⁷ Any test for support tied to median household income will inevitably deliver unnecessary benefits to high-income consumers located in low-median-income areas, be they states or wire centers, while denying necessary support to low-income consumers located in high-median-income areas. In addition to delivering undesirable results, an income-based measure would be complicated and burdensome to administer. The Commission should not accept such a cumbersome and ineffective approach. Instead, the Commission should adopt GCI's proposed mechanism and begin to gather additional data to accurately assess the comparability of rural and urban rates.

V. THE COMMISSION SHOULD NOT EXPAND PRTC'S PROPOSED INSULAR MECHANISM TO PROVIDE UNNECESSARY "ME TOO" SUPPORT FOR OTHER CARRIERS, AND SHOULD NOT SUBSIDIZE ALASKA INTEREXCHANGE SERVICES.

In its initial comments, GCI raised concerns about PRTC's proposed new funding mechanism for rural areas, explaining that the Commission should provide any necessary support to Puerto Rico consumers through more carefully targeted programs.¹⁸ GCI likewise endorsed the Commission's move away from embedded cost mechanisms, and argued that the Commission should not now undo this progress.¹⁹ Other commenters echoed GCI's concerns, and suggested

¹⁷ NASUCA Comments at 33-34.

¹⁸ GCI Comments at 34-35.

¹⁹ *Id.*

that the Commission should conclude this and other USF reform proceedings before addressing PRTC's proposed mechanism.²⁰

A handful of commenters nonetheless not only endorse PRTC's proposal but also argue that it should be expanded to provide them with additional support.²¹ And AT&T, which sensibly rejects "new, fragmented support mechanisms,"²² nonetheless contends that the Commission should adopt a "discrete fund" that would benefit *its* subsidiary, Alascom.²³ The Commission should decline these invitations.

First, a group of local exchange carriers in Hawaii and Alaska ("STYu" or "STYu Carriers") already receiving support based on embedded cost argues that they require additional embedded cost support through PRTC's proposed insular support mechanism. Included in this group are several carriers providing service in rural Alaska markets, some of which face current and increasing competition from GCI. The STYu carriers offer virtually no evidence to support their extraordinary request, contending, for example, that after "mega-mergers . . . [r]ural America will be neglected by [the remaining telephone, cable and wireless] giants – the urban 'haves' and the rural 'have nots' is becoming a more

²⁰ See, e.g., Comments of AT&T, Inc. at 36-37 (filed Mar. 27, 2006) ("AT&T Comments"); Comments of CTIA – The Wireless Ass'n at 16 (filed Mar. 27, 2006); Dobson Comments at 11-12; Comments of Sprint Nextel Corp. at 8-10 (filed Mar. 27, 2006).

²¹ Comments of Hawaiian Telecom, Inc. (filed Mar. 27, 2006); Comments of Sandwich Isles Communications, Inc., Telalaska, Inc., Yukon Telephone Company, Inc., et. al. at 11 (filed Mar. 27, 2006) ("STYu Comments").

²² AT&T Comments at 38.

²³ See *id.* at 41.

probable scenario.”²⁴ This hypothetical and generalized concern certainly does not justify an expansion of embedded cost support to benefit of a handful of carriers. Indeed, given the paucity of evidence that there is any need for the requested support, it would be simply wasteful (and contrary to the Commission’s interest in curtailing waste, fraud, and abuse²⁵) to adopt the STYu carriers’ proposal.

More importantly, the presence of competition in rural Alaska belies STYu’s claim that additional support is necessary at all. GCI, for example, is already providing advanced services to some of the most remote areas in Alaska, reaching 116 villages with its high-speed wireless Internet services, and serving 18 more by partnering with other providers. GCI currently serves more than half of Alaska’s remote communities and has deployed these high-speed services without the benefit of high-cost Universal Service support. GCI continues to expand into the most remote markets in Alaska. GCI’s experience demonstrates that existing universal service support programs are adequate to drive deployment of advanced services to remote and difficult-to-serve areas. Under these circumstances, additional universal service support would impermissibly

²⁴ STYu Comments at 11.

²⁵ The Commission has recently initiated a broad inquiry into the management and administration of the Universal Service Fund, including addressing ways to deter waste, fraud and abuse. *Comprehensive Review of Universal Service Fund Management, Administration, and Oversight; Federal-State Joint Board on Universal Service, Schools and Libraries Universal Service Support Mechanism; Rural Health Care Support Mechanism; Lifeline and Link-Up; Changes to the Board of Directors for the National Exchange Carrier Association, Inc.*, Notice of Proposed Rulemaking and Further Notice of Proposed Rulemaking, 20 FCC Rcd 11308 (2005) (“USF Management NPRM”).

require consumers to provide the requesting carriers with unnecessary subsidies.²⁶

STYu's requested support would also violate the principle of competitive neutrality and unnecessarily distort the burgeoning market for communications services in rural areas. The requested support could perversely create disincentives for the continued deployment of services by competitive providers. Subsidizing a single provider makes it difficult for other providers to enter and compete. Where competition – the most powerful force for consumer benefits – is already in place, subsidies unfairly disadvantage new entrants, potentially derailing competition at the expense of rural consumers. In today's world, it is essential that all markets, no matter how remote, have the opportunity to benefit from robust competition. It is therefore critically important that the Commission avoid adopting new subsidies that could distort or bring to a halt the nascent competition in rural Alaska.

AT&T's proposed support mechanism is also unnecessary and would stifle competition. AT&T seeks explicit support for "carriers of last resort that are required to provide interexchange services to rural communities."²⁷ Notably, neither the Joint Board nor the Commission has ever concluded that interexchange service should be supported by Universal Service, and AT&T fails to demonstrate that interexchange service satisfies the necessary Section

²⁶ See GCI Comments at 11-14.

²⁷ AT&T Comments at 41.

254(c) criteria.²⁸ As with the STYu proposal, GCI's unsubsidized provision of services in many of the markets that AT&T argues require additional support exposes the wastefulness of AT&T's request.

AT&T argues that its requested support is appropriate because its subsidiary, Alascom, has carrier of last resort (COLR) obligations to provide interexchange services in remote areas of Alaska. But Alascom has other avenues – avenues that do not require consumer-funded subsidies – for addressing any of the hardships it claims as a COLR. The RCA has adopted regulations that enable it to allocate COLR obligations among multiple interexchange carriers, and Alascom is free to petition for reassignment of its COLR responsibilities.²⁹ GCI stands ready to assume these obligations, but Alascom has never asked the RCA to relieve it of any of its COLR obligations. Alascom should be required to exhaust this avenue for relief from its COLR obligations before seeking to relieve its alleged burden with subsidies funded by

²⁸ AT&T's request for support targeted to its needs in rural Alaska, and the Regulatory Commission of Alaska's suggestion that the Commission consider providing explicit support for interexchange carriers that incur unusually high transport costs to serve remote areas, Comments of the Regulatory Commission of Alaska at 3-4 (filed Mar. 27, 2006), echo Alaska's effort to include interexchange services in the definition of supported service, which the Joint Board and the Commission have rejected. *See Federal-State Joint Board on Universal Service*, Notice of Proposed Rulemaking, 18 FCC Rcd 2932 (¶ 56) (2003). The Commission should not accept AT&T's and the RCA's invitation to revisit this debate simply because PRTC seeks additional universal service support.

²⁹ 3 AAC 52.390(c) ("The incumbent interexchange carrier is the carrier of last resort unless the commission by order changes the carrier's responsibilities under this subsection. Upon petition or on its own motion and after an opportunity for a hearing, the commission may reassign carrier of last resort responsibilities, in whole or in part, to one or more facilities-based intrastate interexchange carriers.").

consumers. Alascom's failure to do so suggests that its COLR obligations are not unduly burdensome and are raised here simply to justify a request for more money.

GCI has already explained why the Commission should be reluctant to adopt PRTC's proposed new insular support mechanism.³⁰ The accompanying bleating cries for more money from other quarters illustrates precisely why this Pandora's box should not be opened. Any company-specific support plan, like that proposed by PRTC and AT&T (for Alascom) would not only be premature, but also would be at cross-purposes with the overriding need for reform and increased sustainability. The Commission is in the midst of various universal service proceedings (including this one) that may address any need for additional support.³¹ The Commission should not prematurely adopt a special solution for Puerto Rico or entertain any other situational plea for support; instead, the Commission should proceed with its efforts to reform the entire high-cost mechanism, and universal service generally, considering special additional

³⁰ GCI Comments at 34-35.

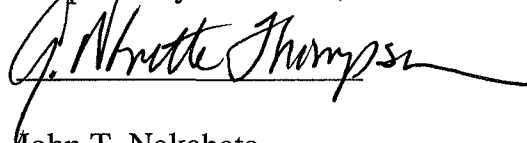
³¹ The Commission is considering, for example, reforming the contribution method for USF, *Federal-State Joint Board on Universal Service, 1998 Biennial Regulatory Review – Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms, Telecommunications Services for Individuals with Hearing and Speech Disabilities, and the Americans with Disabilities Act of 1990, Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size, Number Resource Optimization, Telephone Number Portability, Truth-in-Billing and Billing Format*, Report and Order and Second Further Notice of Proposed Rulemaking, 17 FCC Rcd 24952 (2002), as well as examining management and administration of the fund generally. USF Management NPRM.

support only if necessary after these reforms take effect. Any other approach risks solving a difficult problem twice, while inviting (and creating a precedent for) a further host of “me-too” petitions seeking additional carrier-specific support mechanisms.

VI. CONCLUSION

The Commission should implement the directives of Congress and the Tenth Circuit by (1) defining the future goals of the universal service programs in a manner that takes into account the growth of competitive markets, (2) evaluating the available data to determine where support is necessary to make basic telephony services affordable, and (3) making targeted modifications to existing programs where they are not now sufficient. Now that most Americans can purchase telephony services at affordable rates, the Commission should focus its attention on allowing competitive market pressures to assist in limiting support and reducing the overall size of the fund. The additional support based on embedded costs requested by PRTC and others should not be provided

Respectfully submitted,



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